

# CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Bank Financial Services, Inc\American Investors Bank and Mortgage

Point of Contact:	David Coquette	RSSD: (For Bank Holding Companies)	3229642
UST Sequence Number:	1151	Docket Number: (For Thrift Holding Companies)	H3962
CPP/CDCI Funds Received:	1,004,000	FDIC Certificate Number: (For Depository Institutions)	57695
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Eden Prairie
Date Repaid <sup>1</sup> :	N/A	State:	Minnesota

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The Banks primary objective of participating in CPP was to provide capital to maintain loan production levels equal to its projected loan portfolio runoff or \$375,000 per month. During the period of 01- 2011 through 12-2011 the Bank originated \$4.1 Million in portfolio 1-4 Family, 103% goal.

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☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

The Bank continues to execute its Business Plan of originating 1-4 Family 1st and 2nd Lien loans based upon the experience of the lending staff and within its lending policy.

☒ **Increase securities purchased (ABS, MBS, etc.).**

The Bank has increased its MBS portfolio with 0-20% risk weighted securities in order to generate additional revenue in conjunction with its loan production performance. The monthly cash flow provided by the securities allows the Bank to meet loan demand and improve profitability.

☐ **Make other investments.**

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☒ **Increase reserves for non-performing assets.**

The Bank's profitability has made it possible to achieve lending goals and maintain an adequate loan loss reserve.

☐ **Reduce borrowings.**

☐ **Increase charge-offs.**

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☐ Purchase another financial institution or purchase assets from another financial institution.

☐ Held as non-leveraged increase to total capital.

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The capital infusion of CPP funds continues to allow the Bank to maintain its loan portfolio balances and increase profitability that in turn allows for the strengthening of the loan loss reserves and potential for further balance sheet growth and improved earnings versus shrinking the balance sheet and reducing service levels to meet desired capital levels. The Bank recognizes the weak yet improving condition of the economy and its future improvements in earnings performance is directly tied to employment. Delinquency rates are at 2 year lows and have leveled off in the 4th qtr of 2011. Modification requests have declined over the past 12 months. The Bank continues to make every effort to participate in programs that are available to it and will continue to seek ways to keep the borrowers in their homes. We continue to see a strong desire for those that are having difficulty paying to want to stay in their homes.

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### **What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

The Bank continues to operate under its Business Plan model of a 1-4 Family lender with policies and procedures that have adapted to current economic conditions with the aid of the capital infusion. The Bank has been able to fill voids created by the market and originate quality credits that strengthen the overall loan portfolio while at the same time fine tune its operation to improve profit margins. The ability to improve profitability will allow the Bank to seek out new products and services to compliment the current needs of the consumer it serves as the banking environment evolves out of the recession under newly proposed financial reform. The Bank will continue to monitor and implement where feasible such programs that are introduced as a result of the changes in how consumers conduct banking in the future.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

The capital infusion of CPP funds has allowed the Bank to retain its deposit customers as evidenced by the significant growth in FDIC insured deposits year over year. The deposit customer today is looking for safety as much as return on investment. The Bank has been able to show financial results that support its ability to be a safe and competitive provider of banking services in the future. We will continue to build on core deposit relationships as we move to a retail sales environment versus the wholesale production of the past. More recently deposit customers can see our improved performance in Bankrate.com's rating system. This allows the Bank to move ahead in its growth plan without having the burden of looking for higher cost funding sources. The continued growth and added profitability of the Bank has made it possible to expand its lending products and seek alternative sources of revenue that have eased the burden of credit quality and associated reserve requirements. Last and most important, as we move into a position to begin repaying TARP funds, the Bank has reached a level of confidence in its investors and the investing community that would allow for additional sources of Capital. Our Balance Sheet has never been in a better position and Asset Quality has improved tremendously. The future earnings stream reflects strong earnings and the capability to eliminate the entire debt of the Holding Company over the next 3 years.